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July 31, 2001 **RECEIVED**JUL 31 2001

Magalie Roman Salas Secretary Federal Communications Commission 445 Twelfth St., S.W. Washington, D.C. 20554

Re: Federal-State Joint Board on Universal Service,

CC Docket No. 96-45

Dear Ms. Salas:

On behalf of the Palau National Communications Corp. ("PNCC"), my colleague Douglas A. Klein and I, and J. Marvin T. Ngirutang, Jr. of the Embassy of the Republic of Palau, met this morning with Debra Weiner and Sonja Rifken of the Office of General Counsel and Katie King of the Common Carrier Bureau to discuss issues relevant to the docket referred to above.

The purpose of the meeting was to present PNCC's legal and policy arguments supporting its inclusion in the FCC's universal service support programs and the National Exchange Carrier Association ("NECA"). We discussed the Republic of Palau's history as a former U.N. Trust Territory under the administration of the United States, and we described Palau's current relationship with the United States under the Compact of Free Association between the U.S. and Palau, which was approved by Congress in 1986 and took effect in 1994. We also discussed PNCC's plans to file an application for Section 214 certification, a petition for declaratory ruling, and a request for related waivers, in order to become subject to FCC regulation pursuant to Section 131(a)(2) of the Compact of Free Association.

Attached to this letter are materials that we provided to the FCC staff members in attendance: a map of Pacific island nations and territories, including Palau; a letter from the President of the Republic of Palau to the FCC Chairman; section 131 of the Compact of Free Association with the Republic of Palau; a selection from the legislative history on the adoption of the Compact; the Agreement

Part of States of 2

Magalie Roman Salas July 31, 2001 Page 2

Regarding the Provision of Telecommunications Services by the Government of the United States to Palau Concluded Pursuant to Section 131 of the Compact of Free Association; and a selection from *Texas Office of Public Utility Counsel v. FCC*, 183 F.3d 393 (5th Cir. 1999) relating to the interpretation of Section 254(b) of the Communications Act.

If you have any questions, please contact me.

Respectfully submitted,

David Dieradyki

David L. Sieradzki

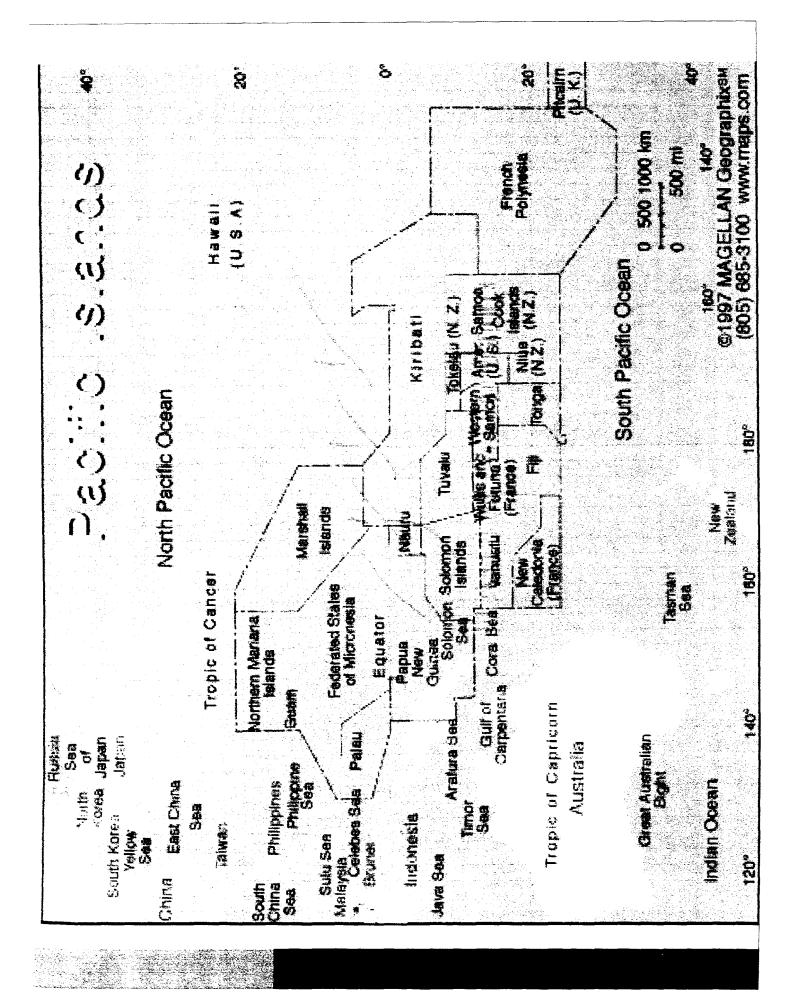
Counsel for Palau National Communications

Corp.

Enclosures

cc: Debra Weiner

Sonja Rifken Katie King





REPUBLIC OF PALAU

Office of the President

TOMMY E. REMENGESAU, JR.

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July 12, 2001 Serial No. 01-360

William Powell
Chairman,
The Federal Communications Commission
Washington, DC 20554

RE: Republic of Palau - Participation in FCC Universal Service and NECA

Dear Chairman Powell:

I write to request your attention and the assistance of your good offices in relation to a matter of vital importance to the Republic of Palau, to wit: the need for the Republic to be included in the United States Federal Communications Commission ("FCC") Universal Service programs, in particular, those administered by the National Exchange Carriers Association ("NECA").

As you are undoubtedly aware, since 1994 the Republic of Palau has been an independent country closely associated with the United States under the terms of the Compact of Free Association ("Compact") between the United States and Palau. Before the signing of the Compact, Palau was a Trust Territory of the United States for over 50 years.

Under the terms of the Compact, the United States obtained very significant military rights in Palau that protect its strategic interests in the region and the Republic became a fully self-governing entity with equally significant financial support from the United States. A very large portion of that financial support is extended to the Republic by way of qualification for a broad schedule of United States Federal programs. This list of programs is expandable through a provision of the Compact permitting the negotiation of necessary additional grants. Such provision has been used in the past, by Palau, the Federated States of Micronesia and the Republic of the Marshall Islands (both with similar provisions) to expand original Compact federal programs.

During the long and friendly period of governance by the Trust Territory of the Pacific Islands, a telephone system was installed in Palau and, over time, became antiquated and inadequate for the Republic's then existing and future needs. This system was turned over to the Republic during the transition to independence. However, the shortcomings of the system were quickly recognized by the Republic's leadership leading to a determination that it would be in the Republic's best interest to obtain a modern, state-of-



William Powell

The Federal Communications Commission

RE: Republic of Palau – Participation in FCC Universal Service and NECA 7/12/01

international benchmark rate order and other international policies. We strongly believe that the best approach available to the Republic, and to the United States, is to petition the FCC to be included in their universal service programs, particularly those administered by NECA.

The Republic further believes that participation in NECA by PNCC is justified and is in both the Republic's and the United States' best interests. Such participation will help to replace revenues lost by virtue of the FCC's international benchmark rate order and other international policies and thus will enable PNCC to repay the RUS loan and to maintain and expand its telecommunications system. All of this in turn will help to foster the economic development and self-sufficiency of the Republic and to protect the strategic interests of the United States. This can all be accomplished without any significant cost to the U.S. government.

The Republic has already had significant discussion with representative of the Department of State, the Department of Interior, The Department of Agriculture (RUS) and NECA on this matter. Each has indicated its strong support on the issue, in principle. Consequently, the last remaining element in the puzzle is the determination of the most efficient mechanism to permit the Republic to qualify for FCC universal service status.

I respectfully solicit the support of your good offices in securing the approval of the Republic of Palau's request to the FCC.

Sincerely,

President of the Republic of Palau



William Powell
The Federal Communications Commission
RE: Republic of Palau – Participation in FCC Universal Service and NECA
7/12/01

the-art telecommunications system. The Republic firmly believes that such a telecommunications system is critical, not only in order to foster the economic development and self-sufficiency of the Republic, but also to protect the strategic interests of the United States.

PNCC, a public corporation, wholly owned by the Republic, was created by law and mandated to establish and operate such a telecommunications system. To that end, PNCC applied for and received a \$39 Million loan from the United States Department of Agriculture Rural Utilities Service ("RUS"). A modern telecommunications system was subsequently designed and constructed and is now fully operational, providing the citizens of Palau and, for that matter, various agencies of the Government of the United States, including its embassy here in Palau, with a full range of telecommunications links to the rest of the world.

The determination by RUS to grant the loan to PNCC was clearly based upon the use of reasonable projections of PNCC's anticipated revenues, particularly its revenues from long distance telephone calls, PNCC's largest revenue source. Unfortunately, the recent implementation of the "International Benchmark Rate Order" by the FCC has imposed long distance rates on the PNCC that make the loan repayment impossible. The \$.50 per minute rate prescribed by the Benchmark Order covers little more than the International expense and leaves little room to subsidize local service. In addition to the Benchmark Order, additional FCC policies such as callback and refilling, which encourage international competition, have resulted in an incoming rate that cannot support the current system nor subsidize local service. A subsidy of local service is absolutely necessary considering the high capital cost of the system and the small population base.

The PNCC is therefore faced with some very unacceptable scenarios: defaulting on the RUS loan or establishing rates at such a high level that no one in Palau would be able to afford telephone services. In addition, due to the FCC's international policies, PNCC's ability to maintain the type of telecommunications system necessary for the Republic to expand its economic base by attracting foreign direct investment and thereby achieving economic self-sufficiency is placed in significant danger. This very real fact is certainly not within the scope of the intentions of either Palau or the United States when our two countries decided to join into a long-term military and financial relationship.

Recognizing that the two scenarios mentioned above are unacceptable, the Republic of Palau and PNCC have been seeking a mechanism to ameliorate the effects of the FCC's

the United States to citizens of Palau for travel outside of Palau, the Marshall Islands, the Federated States of Micronesia, the United States and its territories and possessions.

Article III

Communications

Section 131

(a) The Government of Palau has full authority and responsibility to regulate its domestic and foreign communications, and the Government of the United States shall provide communication assistance in accordance with the terms of a related agreement which shall come into effect simultaneously with this Compact, and such agreement shall remain in effect until such time as any election is made pursuant to Section 131(b) and which shall provide for the following:

(1) the Government of the United States remains the sole administration entitled to make notification to the International Frequency Registration Board of the International Telecommunications Union of frequency assignments to radio communications stations in Palau; and to submit to the International Frequency Registration Board seasonal schedules for the broadcasting stations in Palau in the bands allocated exclusively to the broadcasting service between 5,950 and 26,100 kHz and in any other additional frequency bands that may be allocated to use by high frequency broadcasting stations; and

(2) the United States Federal Communications Commission has jurisdiction, pursuant to the Communications Act of 1934, 47 U.S.C. 151 et seq., and the Communications Satellite Act of 1962, 47 U.S.C. 721 et seq., over all domestic and foreign communications services furnished by means of satellite earth terminal stations where such stations are owned or operated by United States common carriers and are located in Palau.

(b) The Government of Palau may elect at any time to undertake the functions enumerated in Section 131(a) and previously performed by the Government of the United States. Upon such election, the Government of the United States shall so notify the International Frequency Registration Board and shall take such other actions as may be necessary to transfer to the Government of Palau the notification authority referred to in Section 131(a) and all rights deriving from the previous exercise of any such notification authority by the Government of the United States.

Section 132

The Government of Palau shall permit the Government of the United States to operate telecommunications services in Palau to the extent necessary to fulfill the obligations of the Government of the United States under this Compact in accordance with the terms of related agreements which shall come into effect simultaneously with this Compact.

LEGISLATIVE HISTORY

P.L. 99-658 [page 38]

Section 123. In this section, Palau agrees to consult with the United States in foreign affairs matters in recognition of the authority and responsibility of the United States under Title III (security and defense relations).

This section also provides that the United States will consult with Palau on foreign affairs matters which relate to or affect Palau and will provide Palau information on regional foreign

policy matters on a regular basis.

Section 124. In this section the United States recognizes the authority of Palau to conduct its foreign affairs regarding the law of the sea and marine resources, including the conservation, exploration or utilization of living and nonliving marine resources, as recognized under international law.

This section also recognizes the jurisdiction and sovereignty of Palau over its land, waters and air space, only to the extent as au-

thorized under international law.

Section 125. This section provides for termination of all obligations, responsibilities, rights and benefits of the United States under any treaty made applicable to the Trust Territory during the Trusteeship. The continued application of such treaties to Palau will be determined in accordance with international law, and will thus depend upon the relations between Palau and other signatories of such agreements. However, under Title III and the separate agreements concluded pursuant thereto, defense treaties and international security agreements will continue in force.

Section 126. This section is a disclaimer by the United States of responsibility for Palau actions in their exercise of their foreign af-

fairs capacity.

Section 127. Under this section the United States may provide, if requested and mutually agreed, to assist or act in behalf of Palau in foreign affairs. The section also states, however, that the United States shall not be responsible to third parties for the actions of Palau undertaken with the assistance of the United States unless expressly agreed.

Section 128. Under this section, the United States will provide, upon request, consular services to Palau citizens abroad as if they

were United States citizens.

Article III, Communication

Section 131. This section recognizes Palau's authority and responsibility to control domestic and foreign communications, and enables the United States to represent Palau before the International Telecommunications Union with respect to frequency registration and broadcast scheduling until Palau chooses to undertake that function themselves. This section also extends Federal Communications Commission jurisdiction to Palau as regards to the operations of satellite earth terminal stations operated by U.S. common carriers. Under this arrangement, the details of which are set forth in separate agreements, Palau will be included in the United States telecommunications system for rate-making and other operational aspects relating to United States common carriers.

Section 132. This section ensures United States ability to operate telecommunications systems in Palau in connection with its obliga-

tions under the Compact.

Agreement Regarding the Provision of Telecommunication Services by the Government of the United States to Palau

Concluded Pursuant to Section 131 of the Compact of Free Association

Agreement Regarding the Provision of Telecommunication Services by the Government of the United States

to Palau

Concluded Pursuant to Section 131 of the Compact of Free Association

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Agreement Regarding the Provision of Telecommunication Services by the Government of the United States

to Palau

Concluded Pursuant to Section 131 of the Compact of Free Association

This Agreement is concluded by the Signatory Governments and sets forth their respective authority and responsibility with regard to the provision of telecommunication services by the Government of the United States to the Government of Palau as authorized by Section 131 of the Compact of Free Association (the Compact).

Article I

Definitions

Article I

Definitions

- 1. The definition of terms set forth in Article VI of Title Four of the Compact are incorporated in this Agreement.
- 2. For the purposes of this Agreement only, the following term shall have the following meaning:

"International Telecommunication Union (ITU) Administration": is for the purposes of this Agreement the Government of the United States.

Article II

Authority and Responsibility

Article II

Authority and Responsibility

- 1. The Governments of Palau, which is competent and capable under Section 121 of the Compact to conduct foreign affairs in their own name and right with respect to, among other things, communications, has requested that the Government of the United States act as its agent with regard to the provision of certain communications services set forth in Section 131 of the Compact.
- 2. The Government of the United States shall provide telecommunication services to the Government of Palau as authorized by Section 131 of the Compact. Pursuant to Section 131, the Government of the United States shall represent the interests of the Governments of Palau before the International Telecommunication Union (ITU) and other administrations concerned with international telecommunication in matters pertaining to the International Telecommunication Convention.
- 3. When the Government of the United States acts on behalf of the Government of Palau pursuant to paragraph 2 of this Article, the Government of the United States shall act in accordance with the provisions of the laws and regulations of the United States which the Government of the United States determines are applicable to Palau at such time. The actions of the Government of the United States shall be consistent with the following:
- (a) Prior to the Government of the United States acting on behalf of the Government of Palau in its capacity as ITU Administration, wherever preparation for, or representation at plenipotentiary or administrative conferences of the Union is concerned, the Government of the United States shall consult with the Government of Palau on matters which in the opinion of the Government of the United States relate to or affect any such Government. These consultations shall occur in order for the Government of Palau to present its views to the Government of the United States which shall consider these views when developing United States proposals and positions in connection with the conference preparatory efforts cited hereinbefore. We consultations need be undertaken in respect to matters which, in the opinion of the ITU Administration arise by virtue of due application of the regulatory provisions of the international Radio Regulations then in force.
- (b) The Government of the United States shall notify the Government of Palau of significant actions of the ITU and other administrations which the Government of the United States regards as relating to or affecting such governments.

- (c) When developing those rules and regulations of the United States which may be applicable to the Government of Palau pursuant to paragraph 2 of this Article, the Government of the United States shall give prior notice of its intentions to the Government of Palau and shall take into account all views expressed by or on behalf of the Government of Palau in connection with the relevant rule-making proceedings.
- (d) The provisions of Section 421 of the Compact shall apply, and the Government of the United States shall confer promptly at the request of the Government of Palau and that government shall confer promptly with the Government of the United States on matters relating to this Agreement except in respect to matters which, in the opinion of the ITU Administration, arise by virtue of due application of the regulatory provisions of the International Radio Regulations then in force.
- (e) For the purpose of carrying out the provisions of this Agreement, Competent Authorities shall be designated by each of the Signatory Governments. The Competent Authority of the Government of the United States and the Competent Authority of the Government of Palau may communicate directly with each other. The designation by a government of its Competent Authority will be communicated in writing to the other signatory governments, and such designation may, from time to time, be amended.
- 4. (a) The authority and responsibility of the Government of the United States pursuant to paragraph 1 of this Article is without prejudice to the authority and responsibility of the Government of Palau with regard to telecommunication in Palau, except as may otherwise be required by the International Telecommunication Convention as completed by the Administrative Regulations.
- (b) The Governments of Palau shall develop, prior to conducting any telecommunication activity in Palau, standards and procedures, as recommended by the Government of the United States, which shall be consistent with the ITU Convention inasmuch as this Convention is a treaty obligation of the ITU Administration for the Government of Palau. In developing, implementing and maintaining these standards and procedures, the Government of Palau shall take whatever steps may be required by the ITU Convention, as completed by the Administrative Regulations, such that the ITU Administration for the Government of Palau may fully meet its obligations under that Convention.

Article III
Transition

Article III

Transition

- 1. Upon receipt of notice pursuant to Article IV of this Agreement from the Government of Palau, the Government of the United States shall assist the requesting government in obtaining membership in the ITU. After receipt of notice from the ITU of the requesting government's qualification to act, the Government of the United States shall take such actions as may be necessary to transfer to Palau all relevant obligations and rights.
- 2. Upon termination of the functions enumerated in Section 131 of the Compact by the Government of the United States, the applicability of all laws of the United States, and of its regulations, practices, policies, treaties, conventions, and arrangements which are applicable to this Agreement shall cease to be applicable in the territory of Palau, and any authority and responsibility of the Government of the United States in respect to such services shall also cease.

Article IV Effective Date, Amendment and Duration

Article IV

Effective Date, Amendment and Duration

- 1. This Agreement shall come into effect simultaneously with the Compact.
- 2. The provisions of this Agreement may be amended as to the Government of Palau and as to the Government of the United States at any time by mutual agreement.
- 3. This Agreement shall remain in force for a period of fifteen years, subject to Section 231 and Article IV of Title Four of the Compact and in the absence of action to the contrary by a Plenipotentiary Conference of the ITU, unless terminated by a signatory Government in the following manner:
- (a) Termination of this Agreement by any signatory Government shall be effected by a written notification to either the Government of the United States or to the Government of Palau, as appropriate, and
- (b) Termination shall take effect as mutually agreed or one year after the recipient Government has been notified, but not before receipt of notice from the ITU of the qualification to act.
- 4. This Agreement may be accepted, by signature or otherwise, by the Government of the United States, and the Government of Palau. Each such Government shall possess an original English language version.

IN WITNESS WHEREOF, the undersigned, duly authorized, have signed this Agreement Regarding the Provision of Telecommunication Services which shall come into effect in accordance with its terms between the Government of the United States and the other Government signatory to this Agreement.

Agreement Regarding the Provision of Telecommunication Services by the Government of the United States

to Palau

Concluded Pursuant to Section 131 of the Compact of Free Association

DONE AT Koror, Republic of Palau, this loth day of January, one thousand, nine hundred eighty five

FOR THE GOVERNMENT

OF

THE UNITED STATES OF AMERICA

FOR THE GOVERNMENT

OF

THE REPUBLIC OF PALAU

Agreement Regarding the Provision of Telecommunication Services by the Government of the United States to Palau Concluded Pursuant to Section 131 of the Compact of Free Association

AGREED MINUTE

The Signatory Governments agree that in order to facilitate common carrier, including satellite, telecommunications in Palau, this Agreement shall be amended as to the matter of United States Federal Communications Commission (FCC) jurisdiction in Palau.

183 F.3d 393

16 Communications Reg. (P&F) 871

(Cite as: 183 F.3d 393)

TEXAS OFFICE OF PUBLIC UTILITY COUNSEL; Celpage, Inc.; Southwestern Bell Telephone Company; GTE Midwest, Inc.; Louisiana Public Service Commission, an Executive Branch Department of the State of Louisiana: COMSAT Corporation: People of the State of California: Public Utilities Commission of the State of California: Iowa Utilities Board: South Dakota Public Utilities Commission; Pennsylvania Public Utility Commission; Bell Atlantic Telephone Companies; Vermont Department of Public Service; GTE Service Corporation: GTE Alaska Incorporated: GTE Arkansas Incorporated: GTE California Incorporated: GTE Florida Incorporated; GTE South Incorporated; **GTE Southwest Incorporated:** GTE North Incorporated; GTE Northwest Incorporated; GTE Hawaiian Telephone Company Incorporated; GTE West Coast Incorporated; Contel of California, Inc.: Contel of Minnesota, Inc.: Contel of the South, Inc.: Public Service Commission of Nevada: Cincinnati Bell Telephone Company; Florida Public Service Commission; People of the State of New York; Public Service Commission of the State of New York; and The State Corporation Commission of the State of Kansas, Petitioners,

FEDERAL COMMUNICATIONS COMMISSION and United States of America. Respondents.

> No. 97-60421. United States Court of Appeals, Fifth Circuit.

> > July 30, 1999.

State agencies and telecommunications services providers challenged various aspects of universal service order issued by Federal Communications Commission (FCC) to implement Telecommunications Act, including rules developed to modify existing system of support for high-cost service areas and creation of new support programs for schools, libraries, and health care facilities. The Court of Appeals, Jerry E. Smith, Circuit Judge,

held that: (1) FCC reasonably interpreted universal service statute as permitting it to adopt forwardlooking cost models in its methodology for calculating support for high-cost service areas; (2) statute did not authorize FCC to prohibit states from imposing additional requirements on carriers otherwise eligible to receive support; (3) FCC's decision not to require telecommunications carriers receiving universal service support to provide unbundled services was not arbitrary and capricious; (4) FCC exceeded its jurisdiction when it prohibited telecommunications carriers receiving universal service support from disconnecting Lifeline services from low-income customers who failed to pay toll charges; (5) FCC could not require incumbent local exchange carriers (ILECs) to recover their universal service contributions through their interstate access charges; (6) FCC offered reasonable justification for including commercial mobile radio service (CMRS) providers with telecommunications carriers required to make contributions to universal service system; (7) FCC could permit states to impose universal service contribution requirements on CMRS providers; (8) deference was warranted with respect to FCC's decision to mandate support for discounted internet services and internal connections for schools and libraries; and (9) FCC lacked authority to assess both interstate and intrastate revenues of providers of interstate telecommunications services to fund universal support mechanisms.

Petitions for review granted in part and denied in part; universal service order affirmed in part, remanded in part, and reversed in part.

[1] STATUTES @==219(4)

361k219(4)

Under first step of two-step Chevron review of agency's interpretation of its statutory authority to adopt rules it has promulgated, Court of Appeals first decides whether Congress spoke directly to precise question at issue, and, if so, gives effect to unambiguously expressed intent of Congress; under such situation, Court of Appeals will reverse agency's interpretation if it does not conform to plain meaning of statute.

[2] STATUTES ©=219(2)

361k219(2)

On review of agency's interpretation of its statutory authority to act, when statute is silent or ambiguous.

(Cite as: 183 F.3d 393, *411)

and (4) whether the litigation will expedite, rather than delay or impede, effective enforcement by the agency. See Dresser Indus. v. United States, 596 F.2d 1231, 1235 (5th Cir.1979). To find a case ripe, we require the party bringing the challenge (here, GTE) to establish all four factors in seeking judicial review. See Merchants Fast Motor Lines, Inc. v. Interstate Commerce Comm'n, 5 F.3d 911, 920 (5th Cir.1993).

The FCC does not claim that the issues presented are not purely legal, and we have already explained why, under Abbott Laboratories, the Order remains a final agency action. There is no indication that the petitioners are currently unaffected by the legal force of the Order. Finally, we agree with GTE that because the FCC has had ample time (three years) and opportunity to implement the Order, judicial guidance on the legality of the Order will not delay or impede the agency's ability to carry out its statutory duties.

i. STATUTORY INTERPRETATION.

The question, of course, is not whether it is good policy for the FCC to use such cost models, [FN12] but whether the decision to adopt this methodology conforms to the plain language of the statute. If the language is ambiguous, we must then ask whether the use of forward-looking cost models is reasonable given the terms of the statute and the deference the FCC afforded must he under Chevron. Additionally, we must consider whether the agency's actions in reaching its decision are "arbitrary and capricious" under the APA. See 5 U.S.C. § 706(2)(A).

FN12. GTE refers us to Justice Brandeis's dissent (joined by Justice Holmes) in Missouri ex rel. Southwestern Bell Tel. Co. v. Public Serv. Comm'n, 262 U.S. 276, 43 S.Ct. 544, 67 L.Ed. 981 (1923), criticizing use of "fair value" (another version of forward-looking cost models) in ratemaking. GTE notes that Justice Breyer has endorsed Justice Brandeis's criticisms. Even in his separate opinion in Iowa Utilities, however, Justice Breyer did not advocate that the Court prohibit the FCC from adopting forward-looking cost models. See Iowa Utilities, 119 S.Ct. at 752 (Breyer, J., concurring in part and dissenting in part) ("These examples do not show that the FCC's rules are themselves unreasonable").

Most importantly, the Brandeis criticism of "fair value" has never reflected the view of a majority of the Court, which on several occasions has declined to adopt Justice Brandeis's views on this question. See Federal Power Comm'n v. Texaco Inc., 417

U.S. 380, 94 S.Ct. 2315, 41 L.Ed.2d 141 (1974); Federal Power Comm'n v. Hope Natural Gas Co., 320 U.S. 591, 64 S.Ct. 281, 88 L.Ed. 333 (1944). Instead, the Court consistently has refused to "designat[e][] a single theory of ratemaking [that] would unnecessarily foreclose alternatives which could benefit both consumers and investors." Duquesne Light Co. v. Barasch, 488 U.S. 299, 316, 109 S.Ct. 609, 102 L.Ed.2d 646 (1989). In fact, the Court has explicitly sustained similar cost models not based on historical costs. See Mobil Oil Exploration & Producing Southeast Inc. v. United Distrib. Cos., 498 U.S. 211, 224-25 n. 5, 111 S.Ct. 615, 112 L.Ed.2d 636 (1991) (indicating that similar non-historical based cost model was not arbitrary, capricious, or manifestly contrary to the statute at issue.).

We conclude that the plain language is ambiguous as to whether the FCC's cost models are permitted. We then decide that under Chevron step-two, the FCC's forward-looking cost models are authorized under their reasonable interpretations of the statutory language. Finally, we do not conclude that the FCC acted in a "arbitrary and capricious" manner in reaching its decision to adopt forward-looking cost models.

[8] GTE argues that the methodology violates the "equitable and nondiscriminatory" language ir § 254(b)(4). We disagree with GTE's claim that the plain language of § 254(b)(4) prohibits the FCC from adopting its methodology.

The section of the statute that GTE relies on represents one of seven principles identified by the statute as the basis for the agency's universal service policies. Rather than setting up specific conditions or requirements, § 254(b) reflects a Congressional intent to delegate these difficult policy choices to agency discretion: "The Joint Board and the Commission shall base policies for the preservation and advancement of universal service on the following principles...." (Emphasis added.) 47 U.S.C. § 254(b).

*412 Moreover, the FCC has offered reasonable explanations for how its use of the forward-looking cost models cannot be characterized as inequitable and discriminatory. For instance, the FCC points out that all carriers, including interexchange carriers ("IXC's") such as AT & T and MCI, are subject to the same cost methodology and must move toward